IV

CONCLUSIONS

From Tactics, to Strategy, to Grand Strategy

We began by asking whether national strategists will have to face serious threats caused by mismanagement of the domestic economy in the coming era. The answer is not only affirmative but unexpectedly somber. After reviewing the prospects for cumulative economic decline, loss of indigenous economic and technological capabilities, and growing vulnerability to external manipulation, it becomes clear that American economic policy and American national security policy are intimately linked.

In the most basic sense, the question "Is the United States in decline?" does not require a complicated and speculative response. The answer is yes. Future historians will improve upon the analytic lens of Paul Kennedy and judge this period in the last quarter of the twentieth century to have been crucial in determining America's role in the international system. If the relationship between consumption, savings, and investment proceeds unchanged, the United States will indeed follow, in its own way, the trajectory along which other great powers have slid before. In the process, the appeal to attributes of "soft power," to American values and ideas, is unlikely to halt the deterioration of America's standing in comparison to its industrial rivals or, indeed, even to maintain America's own autonomy of action, as nations look elsewhere for alliances with states that have the resources and capabilities to influence events to their own liking.

Reversing America's Decline: The Challenge of Domestic Leadership

However daunting the specter of America in decline, the direction is, at least in principle, eminently reversible. The measures needed for the epic task of solidifying America's future place in the world are not in themselves of heroic proportions. From a theoretical point of view the required macroeconomic steps (constraining consumption, rewarding savings and investment, reducing the federal budget deficit)[77] are relatively straightforward. The difficulty springs from the political task of putting them into place. The challenge for American policymakers has been transformed (and rendered more difficult, ironically) by the end of the cold war. Today, in the comforting absence of clear and present dangers, there appears to be less need for uncomfortable solutions that require discipline, sacrifice, and concerted purpose. To the popular mind the connection between threat and remedy on issues of domestic economic management and national security is obscure and the need for self-denial opaque. As a consequence, national strategists cannot assume that either the leaders or the led will turn away from short-term temptations, assume burdens, and take a long-run perspective. Instead a propensity for short-term, narrow, and self-interested action, along with a temptation to draw down on the nation's accumulated assets, poses new challenges to domestic leadership—challenges that the American political system may be ill-equipped to deal with.

Suppose, however, that American leaders and institutions can rise to the challenge of turning around the underlying deterioration of the United States' economic position, of changing the balance between consumption and savings, of investing in the country's future: what direction should national strategists then choose for trade, foreign investment, technology development, and transborder corporate alliances?

The preceding analysis, issue by issue, demonstrates that the extremes, a laissez-faire attitude of merely letting markets work and a dirigiste preference for crass versions of industrial policy and trade protection, do not, in either case, adequately serve American interests.

Less extreme, however, there are two complexes of policy response, two packages of policy approaches, that coalesce in each case with a reasonably coherent internal logic. The crucial decisions for national strategists are not only how interventionist the U.S. stance should be, but also how protectionist (in terms of trade), how exclusionary (in terms of foreign investment and foreign acquisitions), and how exclusive (in terms of technology creation).

Sophisticated Neomercantilism

The first policy complex might with some justification be called a sophisticated neomercantilism since it is constructed around preferences for having "our own" firms serve "our own" national needs first. At the margin, at least, this effort would resist Who-Is-Us? indifference to national ownership and eschew mutual gains when relative gains were available. The objective would be to maximize the presence of American-owned companies in high-value-added, technologically advanced industries around the world with the most crucial stages and most desirable jobs sited (to the extent feasible) within the United States itself.

On trade, strategists following the sophisticated neomercantilist approach would pursue trade-policy-as-industrial-policy proposals, using carefully crafted managed-trade arrangements (in particular, "voluntary" import expansion agreements) to allow strategic trade-type industries to penetrate external markets and tough, swift penalties to protect American producers against unfair practices (unilaterally defined) in our own markets. The methods of ensuring compliance would be to retaliate against countries where U.S. sales fell short of quantitative goals and to penalize foreign firms that did not meet America's arbitrary standards on dumping and subsidies.

On foreign investment and foreign acquisitions, this approach would involve careful scrutiny of all prospective investors, with a presumption that an acquisition would be blocked if the industry were important to national security (policymakers would be allowed broad discretion in defining national security and would be permitted to use trade protection cum subsidies to bolster failing acquisition target firms).

On technology development, American companies only need apply; the targeting of public funds would aim (in a world in which the U.S. admittedly cannot be superior in everything) at ensuring a head start for American "national champion" companies in each critical technology area. To strengthen American prospects, government support would extend relatively far into the creation of prototypes and the preparation for commercial launch of specific products.

On transborder corporate alliances, there would be restrictive governmental supervision aimed at guarding American supremacy not only at the level of prime contractors, but also at the level of subtier suppliers (as far as possible).

The designing of American policies along neomercantilist lines need not be crude. It cannot be said to be irrelevant. It would represent a logical response to real threats. It would look first to national self-interest, rather than to common international interest, to assure American firms and workers of the largest possible share of the most desirable economic activities.

The alternative policy complex is not simple laissez-faire. On the contrary, the more exact characterization of this policy package turns out to be somewhat surprising.

Transnational Integration

The closer we examine the alternatives in each of the areas of concern to national strategists and add

them together, the clearer it becomes that the second approach would lead steadily and surely toward the integration of corporate strategies and public policies across borders.

On trade, policymakers would pursue trade liberalization along multilateral lines, with common rules for fair play and closer harmonization of national subsidy and national antitrust practices on a higher level to ensure against predation.[78] National security exceptions to free trade (via tariffs) would be narrowly specified, according to empirical criteria using concentration rules.

On foreign investment and foreign acquisitions, outsiders would be welcomed except in narrow circumstances (objectively, not discretionarily, defined), with performance requirements to enmesh foreign companies in the U.S. industrial base being the preferred remedy in the case of globally concentrated industries. Foreigners would be ensnared, not excluded.

On technology development, the principal stimulus, an expanded R&D tax credit, would be available to all firms in the domestic market, including (of course) subsidiaries of foreign corporations. A civilian DARPA to target critical technologies, far from excluding foreigners, would utilize government funding explicitly to draw leading foreign firms into the midst of the American industrial base. On Golden Rule grounds, the United States would expect and encourage other nations to do the same, thereby mitigating the exclusivity and relative advantage that any one nation's technology program might generate.[79]

On transborder corporate alliances, public policy would incorporate a presumption in favor of encouraging such alliances in recognition of the role coproduction agreements and partnerships play in assuring access to markets that otherwise are subject to pressures for nationalistic exclusivity. Safeguards against subjecting one nation or another to external monopoly would be designed to be as unobtrusive as possible, and developed in line with the international merging of antitrust practices indicated above. Ultimately, an international code might govern the exercise of extraterritorial political dictates as well as external monopolistic practices in globally concentrated industries.[80]

This second policy complex is also a logical response to real threats. It represents an attempt to modify market forces to enhance the likelihood of mutual, rather than relative, gains. This approach leads explicitly in the direction of creating mutual dependencies and cross-penetrations among the major industrial powers, even at the risk of surrendering control of domestic economic policies over time to multilateral mechanisms of supervision. Where this web of economic and technological relationships might end would require the supranational speculations of a modern-day Jean Monnet or Robert Schuman.

America's Grand Strategy: A Future Different from the Past?

In each of the two policy complexes outlined above, the whole is greater than the sum of the parts, the first leading toward a more self-centered nationalistic structure for the international system, the second

	Public Policy Approach	
Policy Area	Sophisticated Neomercantilism	Transnational Integration
Trade	Selective managed trade in high-tech industries; unilateral dictation of standards for unfair trade and national security exceptions (broadly and intuitively defined)	Progressive liberalization, with common rules for fairness based on antitrust harmonization; narrow, objectively, and multilaterally defined exceptions for national security
Foreign Acquisitions	Sweeping discretionary screening of foreign acquisitions, with acquisition blocked in national security cases and target firms awarded trade protection/subsidies	Who-Is-Us? indifference to foreign acquisitions, except for limited national security cases requiring integration of foreigners more deeply in the national industrial base
Technology Development	Large programs; U.S. firms only eligible; prototyping and prelaunch commercial assistance	Smaller programs; attraction of foreign firms to participate; early precommercial generic assistance
Transborder Corporate Alliances	Supervision and restriction of transborder alliances among primes, and protection of subtiers	Hands off (or even encouragement) of transborder alliances among primes, with safeguards for the displacement of subtiers in globally concentrated industries

FIGURE 4

toward a more transnationally integrated international system.

In which direction should national strategists head?

The answer to this question is unlikely to be found by following economic criteria alone. The technical assessment of the component proposals in each approach, sophisticated neomercantilism or transnational integration, will not permit national strategists to choose between the policies with confidence. Can voluntary import expansion agreements really be designed to make managed trade preferable to the free trade alternative? Will performance requirements truly be able to neutralize the threat from foreign acquisitions of U.S. firms in globally concentrated industries? Can Boeing or McDonnell Douglas, for example, be counted on to prevent the transfer of American avionics capabilities to foreign shores, without U.S. government supervision? National strategists will not find conclusive answers.

The supra-economic implications of pursuing one course rather than the other, in contrast, are rather clear.

To advance along the sophisticated neomercantilist path, national strategists would have to adopt unilateral and arbitrary measures to fortify the predominance of U.S. firms and production sites in key industries (imposed import quotas, blocked acquisitions, exclusive technology-development programs, dictated standards for subsidies and dumping) that would ultimately depend on the threat of denying access to the American market to be accepted. This approach would deliberately run risks of generating political divisiveness in the international arena, including mirror-image reaction and possible mutual

retaliation, to bolster the relative position of American firms and workers. In short, this approach would constitute a nonmilitary equivalent of coercive diplomacy. It would have to rely on the very size and centrality of the American economy as a backstop against systemic disintegration, and count on European and Asian leaders to mute popular reaction against U.S. unilateralism out of long-term self-interest in maintaining entry into American markets (rather than, perhaps, creating more exclusive economic blocs among themselves). At the same time, to be effective in pursuing this route, national strategists would have to assure themselves that the American political system could adhere to the sophisticated neomercantilist practices outlined above and not slide into more primitive and economically counterproductive versions.

The transnational integration path also involves some delicate noneconomic assumptions. While much more conducive to international harmony, of course, it would require national strategists to keep the United States in a system-maintenance role, bearing a disproportionate share of the burdens, tolerating a certain amount of free-riding by others, taking the long-term view as the major powers struggled toward common multilateral rules on trade, investment, technology development, subsidies and dumping, and transborder corporate alliances. While the preceding analysis has shown that the nation can take out insurance policies against the worst threats that might crop up during this slow-moving process at relatively small cost to either economic efficiency or interstate tension (using concentration rules to delineate security problems), national strategists would want to assure themselves toward a more transnationally integrated international system.

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Thus, in creating a grand strategy for the new era, the vision national strategists have for the future structure of the international system, and the confidence they have that national leaders will be able to move their publics toward that vision, will predominate in the choice of policy approach.

Here, once again, the macroeconomic setting reemerges in importance. In an environment of progress toward broad macroeconomic realignment in the United States (higher savings, lower consumption, greater investment, lower cost of capital for American firms), the risks of pursuing the slower, more integrative, multilateral path would be fewer than they are today. Strategic high-tech sectors in the United States would be in a stronger position to compete on their own, with lower costs, deeper pockets, and longer time horizons. They would be more resilient against whatever fair or unfair practices they met in the marketplace as cooperative efforts to level the playing field were being pursued. The threats of losing large chunks of high-value-added, technologically advanced economic activity to other nations, or of facing mounting dependencies in critical sectors, would diminish.

In an environment of little progress toward macroeconomic realignment, the need to shore up U.S. high-tech sectors via exceptional measures would be greater: these sectors (like others) would have shallower pockets and shorter time horizons and higher cost structures. Even with the fullest array of nationally self-interested efforts that sophisticated neomercantilists could promise, however, American firms and workers would still have to compete with an unfair burden imposed on them by their own society.

Most worrisome is the possibility that nationally self-interested measures may come to be used as substitutes for the fundamental changes in American behavior needed to reverse the country's decline.

The worst of all worlds would be for neomercantilistic economic policies to take the place of (or even relieve the pressure for) progress in rebalancing America's own mix of savings, consumption, and investment. The result would be a deterioration of the United States' position in the international system that would persist no matter how hard we twisted arms or threatened retaliation, accompanied by mounting tensions within the publics of various nations who were caught in the cycle of reciprocal blaming and scapegoating.[81]

Should such tensions extend over a decade or two further into the future, with new generations of citizens growing up in their midst, the world could end up looking like a much different place from today, and a far more familiar place to those acquainted with the antagonisms among great powers and their rivals of previous eras.